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GEORGE SHENG and PEACE ELECTRONICS, INC.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

13 DAVID M. NANCE,
14 Plaintiff,
15 vs.
16 GEORGE SHENG, and PEACE
17 ELECTRONICS, INC., and DOES 1-20,
Defendants.

Case No. 3:08-cv-01450-SI

**DEFENDANTS' ANSWER AND
COUNTERCLAIM**

DEMAND FOR JURY TRIAL

19 Defendants George Sheng (“Sheng”) and Peace Electronics, Inc. (“Peace”) (collectively,
20 “Defendants”) hereby answer the Complaint of Plaintiff David M. Nance (“Nance”) as follows:

ANSWER

22 1. Answering paragraph 1 of the Complaint, the paragraph consists of a
23 characterization of Nance's action as to which no answer is required; to the extent an answer is
24 required, Defendants admit that Nance purports to allege claims under Title 35 of the United
25 States Code, and admits that the U.S. District Court for the Northern District of California has
26 subject matter jurisdiction over the this action under 28 U.S.C. §§ 1338(a) and 1331.

27 2. Answering paragraph 2 of the Complaint, Defendants admit that Defendants
28 reside in this judicial district, and have a regular place of business in this district, and that

1 venue is therefore proper in the U.S. District Court for the Northern District of California under
2 28 U.S.C. §§ 1400(b) and 1391(c). Except as so admitted, the allegations of this paragraph are
3 denied.

4 3. Answering paragraph 3 of the Complaint, Defendants do not contest assignment
5 of this action to the San Francisco Division of the U.S. District Court for the Northern District
6 of California. Except as so admitted, Defendants are without knowledge or information
7 sufficient to form a belief as to the truth of the remaining allegations of this paragraph, and on
8 that basis deny them.

9 4. Answering paragraph 4 of the Complaint, Defendants are without knowledge or
10 information sufficient to form a belief as to the truth of the allegations therein, and on that basis
11 deny each and every allegation contained therein.

12 5. Answering paragraph 5 of the Complaint, Sheng admits to being an individual
13 currently residing in the Northern District of California, and that he is an entrepreneur and the
14 sole owner and business principal of Peace. Except as so admitted, the allegations of this
15 paragraph are denied.

16 6. Answering paragraph 6 of the Complaint, Peace admits to being a corporation
17 organized, existing, and currently suspended under the laws of the State of California, to being
18 an importer and wholesaler of consumer electronics, golf products, household items, and other
19 goods, and to having a principal place of business in Brentwood, California. Except as so
20 admitted, the allegations of this paragraph are denied.

21 7. Answering paragraph 7 of the Complaint, Defendants are without knowledge or
22 information sufficient to form a belief as to the truth of the allegations therein, and on that basis
23 deny each and every allegation contained therein.

24 8. Answering paragraph 8 of the Complaint, Defendants are without knowledge or
25 information sufficient to form a belief as to the truth of the allegations therein, and on that basis
26 deny each and every allegation contained therein.

27 9. Answering paragraph 9 of the Complaint, Defendants admit that on May 27,
28 2006 and May 28, 2006, the City of Morgan Hill promoted and hosted an annual festival

1 known as the Mushroom Mardi Gras where area vendors displayed various goods for sale, and
 2 that Nance operated a vendor booth at the Mushroom Mardi Gras. Except as so admitted,
 3 Defendants are without knowledge or information sufficient to form a belief as to the truth of
 4 the remaining allegations of this paragraph, and on that basis deny them.

5 10. Answering paragraph 10 of the Complaint, Sheng admits to having operated a
 6 vendor booth at the Mushroom Mardi Gras adjacent to Nance's vendor booth. Sheng admits
 7 having proposed to Nance sharing a booth at an upcoming exposition, but denies making any
 8 reference to Nance's visor. Sheng admits having received a visor from Nance, but denies that
 9 there was no exchange of consideration. Except as specifically admitted, the allegations of this
 10 paragraph are denied.

11 11. Answering paragraph 11 of the Complaint, Defendants admit that Sheng
 12 engaged the corporate resources of Peace for the sale and distribution of visors. Except as so
 13 admitted, the allegations of this paragraph are denied.

14 12. Answering paragraph 12 of the Complaint, Defendants admit to having offered
 15 for sale and selling a visor called "3-in-1 Visor" or "Fun Hat," but deny having made, used,
 16 offered for sale, sold, or continuing to make, use, offer for sale or sell any product called
 17 "Hairy Visor" or "Hairy Club Visor." Except as specifically admitted, the allegations of this
 18 paragraph are denied.

19 13. Answering paragraph 13 of the Complaint, Defendants specifically deny
 20 manufacturing Nance's visor at any time. Sheng admits to having received emails from
 21 Nance's attorney informing Sheng that Nance had applied for a patent on his visor and
 22 claiming that Sheng's visor would infringe Nance's pending patent. Sheng admits to neither
 23 requesting nor soliciting any license related to Nance's visor. Except as so admitted, the
 24 allegations of this paragraph are denied.

25 14. Answering paragraph 14 of the Complaint, Defendants deny each and every
 26 allegation contained therein.

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1 **ANSWER TO FIRST CAUSE OF ACTION**
 2 **(Alleging Infringement of U.S. Patent No. D55747)**

3 15. Answering paragraph 15 of the Complaint, Defendants admit and deny the
 4 allegations in paragraph 15 of the Complaint to the same extent and upon the same bases that it
 5 has admitted and denied the allegations in the preceding paragraphs 1 to 14, and incorporates
 6 herein, as though set forth here in full, its responses to paragraphs 1-14 above.

7 16. Answering paragraph 16 of the Complaint, Defendants deny each and every
 8 allegation contained therein.

9 17. Answering paragraph 17 of the Complaint, Defendants deny each and every
 10 allegation contained therein.

11 18. Answering paragraph 18 of the Complaint, Defendants deny each and every
 12 allegation contained therein.

13 19. Answering paragraph 19 of the Complaint, Defendants deny each and every
 14 allegation contained therein.

15 **ALLEGATIONS COMMON TO DEFENDANTS'**
 16 **AFFIRMATIVE DEFENSES AND COUNTERCLAIM**

17 20. On information and belief, Nance filed the patent application for U.S. Design
 18 Patent No. D557,478 (the “‘478 Patent”) on July 23, 2007, which issued on December 18, 2007.

19 21. Nance has charged Defendants with infringing U.S. Patent No. D55747 (the
 20 “‘747 Patent”) in a Complaint filed with this Court on March 14, 2008.

21 22. On information and belief, Nance intends to assert the ‘478 Patent against
 22 Defendants.

23 **FIRST AFFIRMATIVE DEFENSE**
 24 **(Failure to State a Claim)**

25 23. Defendants incorporate the allegations set forth in paragraphs 1-22 above as if
 26 fully set forth herein.

27 24. As a first affirmative defense to the Complaint, Defendants state that the
 28 Complaint fails to state claims upon which relief can be granted.

SECOND AFFIRMATIVE DEFENSE **(Non-Infringement)**

25. Defendants incorporate the allegations set forth in paragraphs 1-24 above as if fully set forth herein.

26. As a second affirmative defense to the Complaint, Defendants do not infringe and have not infringed, contributed to the infringement of, or induced others to infringe any claim of U.S. Patent No. D55747.

THIRD AFFIRMATIVE DEFENSE

(Failure to Prove Damages)

27. Defendants incorporate the allegations set forth in paragraphs 1-26 above as if fully set forth herein.

28. As a third affirmative defense to the Complaint, Nance is barred in whole or in part, because he has not suffered any detriment, injury, or damage.

FOURTH AFFIRMATIVE DEFENSE **(Failure to Mitigate Damages)**

29. Defendants incorporate the allegations set forth in paragraphs 1-28 above as if fully set forth herein.

30. As a fourth affirmative defense to the Complaint, if Nance has suffered any injury or damage, then Nance failed to mitigate the injury or damage.

FIFTH AFFIRMATIVE DEFENSE
(Failure to Mark)

31. Defendants incorporate the allegations set forth in paragraphs 1-30 above as if fully set forth herein.

32. As a fifth affirmative defense to the Complaint, any past damages in this action are barred for failure to mark pursuant to 35 U.S.C. § 287.

COUNTERCLAIM FOR DECLARATORY JUDGMENT
(As to Nance's '478 Patent)

33. Defendants incorporate the allegations set forth in paragraphs 1-32 above as if fully set forth herein.

1 34. There is an actual, substantial, and continuing justiciable controversy between
2 Nance and Defendants regarding the infringement, validity, and enforceability of the ‘478
3 Patent, as a result of Nance’s filing of this action against Defendants alleging infringement of
4 the ‘747 Patent, and attaching as Exhibit A the ‘478 Patent.

5 35. Defendants contend that they do not infringe and have not infringed any valid
6 claim of the ‘478 Patent as properly construed, whether directly or through inducement of
7 infringement or contributory infringement.

8 36. Defendants contend that the claims of the ‘478 Patent are invalid or not
9 enforceable for failure to comply with one or more of the requirements of Title 35 of the U.S.
10 Code including, but not limited to, §§ 101, 102, 103, 112, and 287.

11 37. Defendants have no adequate remedy at law.

PRAYER FOR RELIEF

13 38. WHEREFORE, Defendants request the following relief:

- 14 a. A judgment that Nance recover nothing by his Complaint;

15 b. A judgment that Nance’s Complaint be dismissed with prejudice and that

16 each request for relief therein be denied;

17 c. A declaratory judgment:

18 1) that Sheng has not infringed and is not infringing U.S. Patent No.

19 D557,478;

20 2) that Peace has not infringed and is not infringing U.S. Patent No.

21 D557,478;

22 3) that U.S. Patent No. D557,478 is invalid and/or unenforceable;

23 d. An order, pursuant to 35 U.S.C. § 285, finding that this is an “exceptional”

24 case and awarding Defendants their reasonable attorney’s fees, expenses, and costs incurred in

25 this action; and

26 e. An order awarding Defendants such other and further relief as this Court

27 deems just and proper.

1 **DEMAND FOR JURY TRIAL**

2 39. Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Defendants demand
3 a trial by jury on all issues triable as of right by a jury.

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6 DATED: July 11, 2008

MacPHERSON KWOK CHEN & HEID LLP

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By _____ /s/ Inchan A. Kwon

9 Edward C. Kwok

10 Inchan A. Kwon

11 Attorneys for Defendants

12 GEORGE SHENG and PEACE
13 ELECTRONICS, INC.

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